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PRICES AND RETAIL CONSUMPTION IN 1942.

1. PRICES OF GOODS OTHER THAN FOOD. DRINK AND TOBACCO.

The average increases in the prices of food, clothing, drink and tobacco are easily obtained, from the Ministry of Labour Cost of Living Index, and other published sources. There is, however, no satisfactory index of prices of goods, such as furniture, household textiles, hardware, leather goods, drugs and toilet goods etc. That the latter goods have risen sharply in price is well-known, and we have been fortunate in obtaining information from 3 shops in Oxford which enables us to get some idea of the order of magnitude of the increase in the retail price of these items since the outbreak of war. The results show that, although price control has been extended to many of these items, the level of prices is still very high. The freezing of prices, in fact, goes only part of the way to prevent the unequal distribution of consumers' goods, which is the real danger of inflation.

One shop provided an index ready made, by giving us their estimate of the average increases in cost to the retailer, of the various groups, together with the corresponding purchase tax and retailers' 'mark up.' This gives us at once the following indices of retail prices of the various groups of goods, taking pre-war as 100.

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EDITORIAL NOTE.

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Indices of prices from Shop A at beginning of 1943.* (*pre-war*=100)

1. Furniture	250
2. Household Textiles	265
3. Hardware and China	185
4. Fancy Goods	185
5. Leather and Travel Goods	185
6. Drugs and Toilet Goods	150†

*Owing to the very approximate method of obtaining the retail indices, they have been rounded off.

†This item was obtained by shop A from another shop.

From shop B we obtained details for over 40 items of pre-war and present retail prices. The unweighted average prices for the corresponding groups were as follows.

Indices of prices from Shop B at beginning of 1943. (*pre-war*=100)

3. Hardware and China	176
4. Fancy Goods	195
5. Leather and Travel Goods	234
6. Drugs and Toilet Goods	155

From Shop C we obtained similar data for over 60 items, mainly hardware and household stores and including much gardening equipment.

Indices of prices from Shop C at beginning of 1943. (*pre-war*=100)

	3. Hardward and Household Stores	166
of which :	(*a*) gardening equipment	154
	(*b*) other items	169

The figures for shops B and C are simple averages of the separate price indices for the articles about which we were able to obtain information. The significance of these figures depends of course upon the size and character of the sample. In both shops the articles were chosen at random[1] from among the goods on sale on the particular day. In most of the larger groups the bulk of the price changes are of the same order of magnitude as the average ; even when this is not the case, the changes are evenly distributed around the average. The averages for smaller groups, fancy goods and leather and travel are much less reliable. Thus for leather and travel goods in shop B, whose average index of prices is given above as 234, the indices ranged from 144 (for wallets) to 328 (for iron-bound wooden chests). In shop C hardware and household goods were lumped together, but an examination of the detailed figures shows two more or less distinct groups. The larger, containing such stores as shoe polish, soft soap, a proprietary brand of cleaning powder, repair equipment, such as hammers, nails, taps, pliers, saws etc. showed indices of less than or about 150. In the smaller group containing items of kitchen equipment and table ware, the indices are all 200 or more, e.g. knives and forks (200), enamel bowls (200), buckets (267) and kettles (275). Part of this difference is due to purchase tax, which is not imposed on the stores, but is imposed (at the rate of 16⅔% or 33⅓% on the wholesale price) on most items in the second group. The same argument partly explains the relatively small increases in the prices of gardening equipment and also of drugs and toilet goods.

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[1] Though for each article we asked the retailer to give the prices for a 'standard line. This was an attempt to make some allowance for deterioration of quality.

The detailed information from shops B and C suggests that the overall estimates for the different groups obtained from shop A may be used to obtain *the order of magnitude* of the general level of prices of goods other than food, drink and tobacco, and clothing at the beginning of 1943. Before we attempt to obtain an index, however, it is appropriate to set out the qualifications with which the price data should be read. First of all they apply to a single town. This may not be a cause of serious error in so far as many of the products, whose prices were given, are in fact more or less standard all over the country. Secondly, the class of shop is important. All the shops in the sample are near the centre of the town, but their customers come from all income classes. One shop, in particular, might be taken as a Marshallian ' representative' firm. Experience suggests, indeed, that some of the more spectacular price increases (*e.g.* Christmas toys) are to be found in outlying small shops. Thirdly, full account is not taken of changes in quality. The price-indices for this reason should be taken as minima, in so far as deterioration has been the rule. A special complication is, however, introduced by ' utility ' goods. In shop A, the firm said this was a difficult problem, but attempted to allow for ' utility ' goods, which are much lower in price than the equivalent non-utility goods, partly owing to the remission of purchase tax on the former. The present position of furniture illustrates this difficulty; there are still considerable stocks of non-utility new furniture, (second-hand prices may not exceed and tend to equal new prices) but all production of furniture is utility, which is licensed and available only for certain priority classes of consumers. What the ' price ' is in such a case it is difficult to say. As the existing stocks of non-utility furniture run down the ' utility ' price will become more important, though there is always likely to be a considerable turn-over of second-hand furniture. Finally, the basic period for the indices is rather vaguely ' pre-war.' To be more specific we shall take the year 1938. This will not introduce any error since the changes in prices between 1938 and September 1939 were not of the order of more than 1 or 2 per cent. Most of the qualifications mentioned above imply that our figure may be somewhat lower than the actual index of prices.

The problem of weights to obtain the general index is nearly insoluble. There are data given in the Second Interim Report of the Retail Trade Committee (January 1942) for the value of retail sales in 1939 of Articles other than Food and Drink. Furniture, Household Textiles and Hardware are lumped together and we have split these in the ratio[1] 3 : 1 : 1. These weights of course may have changed continuously and substantially since 1939, but we have no means even of guessing the direction of the changes. To use them, however, involves errors much less serious than are already inherent in the price data used in this article. We exclude tobacco and cigarettes, and also books, periodicals and stationery[2] from our calculations For clothing we use the figure published by the Ministry of Labour, reduced by 5% in accordance with the calculations of Mr. Daniel.[1] The method may be tabulated as follows :—

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[1] These are the approximate ratios of expenditure on the three items in the Ministry of Labour 1937—8 budgets.

[2] Books, etc., are excluded owing to the lack of precise data. The increase in prices of books and stationery was probably between 50 and 100 per cent. While the nominal price of many periodicals has not changed, the reduction in size (paper consumed is one-fifth of pre-war, but more reading matter is now printed per square inch) is equivalent to a substantial price increase. In any case this item is small and its neglect will not affect our final index.

Item	*Price Index at beginning of* 1943 (1938=100)	*Weights* (1939 *sales in £ mill., rounded off*)
Clothing and Footwear	168	465
Furniture	250	135
Household Textiles	265	45
Hardware and Household Stores	185	85
Leather and Travel Goods	185	40
Fancy Goods	185	40*
Drugs and Toilet Goods	150	50

*We take half the ' miscellaneous ' item.

This gives us an average price index of 188. In view of the various possibilities of error involved in the calculations, and because of the smallness of the original sample we may say that by the beginning of 1943 prices of goods other than food, drink and tobacco had risen by some 75—100 per cent. In the following note we shall make estimates of the *volume* of civilian consumption in the year 1942, and for this we require a price index for the average level of prices in that year corresponding to the retail sales figures of the Bank of England. As can be seen, the constituents of our index are more or less the same as those of the Bank of England, though the weights may differ.

The average price of clothing, with the above correction, in 1942 was 180, which is 6 per cent. higher than the end of year figure, owing to the fall in clothing prices due to the increasing flow of ' utility ' production. The prices of other goods, on the other hand, were probably still rising during 1942, though not in a spectacular way owing to the extension of price control. We shall not be far wrong, therefore, if we take the end of year figure for the average of 1942, i.e. we estimate a general average index of prices in 1942 as 175—200, the average of 1938 being 100.

2. CONSUMPTION OF GOODS IN 1942 AS COMPARED WITH 1938.

In earlier articles[2] attempts were made to estimate the fall in the volume of civilian consumption (in real terms) in 1940 and 1941 as compared with 1938. In this note an estimate for the real consumption of goods bought in retail shops or public houses in 1942 is obtained in comparison with 1938. The method is similar to that used in the earlier estimates, but somewhat more precise. The present procedure is as follows. We obtain the retail expenditure on various items, food, drink and tobacco, and non-food goods in 1938. For drink and tobacco we have figures for *quantities* consumed each year, so that we obtain directly the consumption in 1942, at 1938 prices. In the other cases we apply the Bank of England retail sales indices to obtain the value of consumption in 1942, and then deflate these figures with appropriate price indices. We thus obtain for each group the expenditure in 1942 at 1938 prices. This procedure is subject to error ; for example, the Bank of England Retail Sales Index is not entirely reliable,[1] though one disturbing factor, that of bombed shops, was not so important in 1942 as in the previous two years.

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[1] The Cost of Living in Bristol ' BULLETIN Vol. 3, No. 14, p. 329. According to Mr. Daniel a more appropriate way of calculating the clothing index *in Bristol* would have given an index of 151 (August 1939=100) in February 1941, as against 158 using the Ministry's method of calculation.

[2] BULLETIN Vol. 3, No. 10, pp. 210—211 ; Vol. 4, No. 6, p. 134.

Retail Expenditure in 1938. The expenditure on food, drink and tobacco in 1938 was, according to the first White Paper on National Income (1941, Cmd. 6261) £m.1,648. It can be estimated that the sales of Beer, Wine and Spirits, and Tobacco in 1938 were respectively £m.165 £m.90 and £m.175.[2] This leaves for food only, £m.1,220 (in round figures. Soft drinks are thus included in food, which is reasonable in so far as sales of such drinks are probably included in the Bank of England food sales index). According to the Second Interim Report of the Retail Trade Committee (January 1942) the value of retail sales of non-food goods (excluding tobacco) in 1939 was £m.1,020. The Bank of England index shows that sales of such goods in 1939 were 2% higher than in 1938, so that sales in the earlier year were about £m.1,000.

Changes 1938 *to* 1942. The Retail Index of food sales in 1938 was 104.5 (1937=100) and in 1942, 114. The Ministry of Labour food price index rose over the same period by 14.5 per cent. According to Mr. Nicholson's estimate, however, the rise in food prices would be, not 14.5 per cent., but 27 per cent., if subsidies were applied at random on all foodstuffs, and not concentrated on those items included in the index.[3] On this basis we obtain for expenditure on food in 1942, at 1938 prices,

$$\text{£m.}1{,}220 \times \frac{114}{104.5} \times \frac{100}{127} = \text{£m.}1{,}050\text{, some 14 per cent. less than in 1938.}$$

Beer consumption in 1938 was 25.0 million bulk barrels, and in 1941 30.0 million bulk barrels, but 'standard' barrelage, which measures the barley, sugar and other materials used, was almost constant until 1941 at 19 million standard barrels.[4] We shall take the latter as a measure of the change in consumption (see below). Tobacco consump- measure of the change in consumption (see below). Consumption of beer in 1942 was probably at least as high as in 1941.[5] In a written reply in the House of Commons (*Financial News*, March 18, 1943) Captain Waterhouse stated that the quantity of tobacco retained for home consumption in 1942 was between 20 and 25 per cent. more than in 1938. Wine and spirit consumption probably fell by between 35 and 45 per cent. between 1938 and 1942.[6] From these data and the value of sales in 1938 we obtain at once the consumption in 1942 at 1938 prices : Beer

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[1] *Cf.* Vol. 4, No. 6, pp. 132—3.

[2] Based on estimates published in 'The Burden of British Taxation,' by Shirras and Rostas.

[3] For the assumptions underlying this estimate, see J. L. Nicholson, 'Wages and Prices,' Vol. 4, No. 17, p. 322.

[4] BULLETIN, Vol. 4, No. 15, 'Beer in War-time,' by J. Goldmann, p. 288.

[5] *Cf.* BULLETIN, Vol. 5, No. 2, 'Taxation of Tobacco, Beer and Cinema Attendances' by J. Goldmann.

[6] The volume of spirit consumption in the financial year 1941—42 was estimated to be about 30 per cent. below 1937—38. The fall in wine over the same period was put at 40 per cent. (Shirras and Rostas, op. cit. pp. 154—5.) The latter is a small item compared with spirits. Allowing for a further fall in the calendar year 1942, we may estimate the joint reduction to be 35—45 per cent.

£m.165, Wines and Spirits £m.50-60, Tobacco £m.210—220. (These figures are rounded off).

According to the Bank of England Indices, retail sales of non-food Merchandise in 1942 were 2 per cent. higher than in 1938, i.e. the value of sales was some £m.1,020. We have estimated above the increase in price of these goods between 1938 and 1942 to be between 75 and 100 per cent. Expenditure in 1942 on non-food items (excluding tobacco) was thus between £m.510 and £m.580, at 1938 prices. These results are summarised in the Table.

Retail Expenditure in 1938 *and* 1942, *expressed in* 1938 *prices* (*£ million*)

	1938	*1942*
Food	1,220	1,050
Beer	165	165
Wines and Spirits	90	50—60
Tobacco	175	210—220
Non-food Merchandise	1,000	510—580
Total	2,650	1,985—2,075

Food consumption in 1942 was thus of the order of 15 per cent. less than in 1938 ; consumption of drink and tobacco remained almost unchanged (the fall in wines and spirits being offset by the rise in tobacco consumption) ; consumption of all other goods fell by 42—49 per cent. The fall in total consumption was between 22 and 25 per cent. In the earlier article mentioned,[1] we obtained that in 1941 food consumption was 16—17 per cent. lower than in 1938. Those estimates were on an even less secure basis than the present ones, but it seems, nevertheless, that the food consumption in 1942 was rather higher than in the previous year ; consumption of beer and tobacco was assumed to be the same in both years ; consumption of the remaining goods continued to fall between 1941 and 1942.

The change in food consumption applies almost entirely to the civilian population, except in so far as soldiers on leave may consume food bought in retail shops (see below). The drink and tobacco figures apply to the whole resident population, civil and military. Some part of the item, goods other than food, drink and tobacco is also consumed by military (e.g. newspapers and books, leather and travel goods, officers' clothing). These factors must be taken into account when attempting to obtain the fall in civilian consumption per head. The change in the size of the civilian population is difficult to estimate. On the one hand total population (inclusive of *net* immigration since 1938) has risen by some 1¼ per cent.; on the other hand we may assume that there was a *net* withdrawal,[2] since 1938, of, say, 9—11 per cent. of the population to the Armed Forces and other Services whose members are fed and clothed directly by the Government. We may estimate, tentatively, that the civilian consumption per head of food fell by about 5—9 per cent. between 1938 and 1942, while civilian consumption per head of goods other than food, drink and tobacco fell by between 40 and 50 per cent. If we assume that soldiers etc. consume the same quantities of drink and tobacco per head as civilians, it follows that consumption per head of these items has fallen a little, corresponding to the increase in adult population.

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[1] Vol. 4, No. 6, p. 134.

[2] Nothing was deducted from the figure of £m.1,220 for food only in 1938 to allow for consumption of the resident regular forces. This item was very small, and its neglect in no way affects our calculations.

Some of the qualifications governing the method of obtaining these results have already been made, but there is one general point which affects all the calculations. A fall in consumption may occur either by a reduction in the amount of a given quality of goods bought, or by a decline in the quality itself. Wherever possible, allowance has been made for the decline in quality in the price indices used for deflating the value figures. This applies both to the Ministry of Labour indices used, and also to the price index for goods other than food. Beer is a special case. We took 'standard' barrelage as a measure of consumption, which means that from the point of view of the consumer, we neglected the increased consumption of water with beer due to dilution. The increase in bulk barrelage, however, means that beer consumers were commanding more resources of transport, filling and cleaning of barrels, etc. As a proportion of the total cost of beer this item may be small. Moreover, no allowance at all was made for the lower quality of tobacco which would probably more than offset the effect of using standard barrelage for beer. From the point of view of total consumption, therefore, the use of 'standard' barrelage for beer seems justified. On balance, it is probable that the decline in quality of all goods has not been sufficiently allowed for, and on this count the decline in consumption is underestimated.

These further qualifications make it difficult to make definite statements about the results obtained. Even allowing for their approximate character, however, the food consumption per head seems to have fallen remarkably little since 1938, especially if the food consumed in canteens and British Restaurants (and supplied directly by wholesalers) is taken into account. This last factor is partly offset by the fact that the food consumption of soldiers etc. on leave appears in civilian consumption. The smallness of the decrease may, however, be partly due to the fact that (*a*) the proportion of the civilian population occupied in industry and agriculture, (*b*) the proportion of 'occupied' persons actually working, and (*c*) the working time and the intensity of work are all higher than in 1938 (a year of considerable unemployment). Some workers may, indeed, be consuming more food than in 1938 because they both need the extra food and can pay for it. The increase in consumption between 1941 and 1942 is no doubt accounted for to some extent by the higher Lend-Lease shipments in the later year.

G. D. N. WORSWICK.

THE WAR-TIME TREND OF DEPOSITS

1. It has been frequently maintained that bank deposits are fully determined by bank credits; and, in particular, that the movement of deposits in war-time depends on the amount of Government borrowing from the banks. The statement is correct, but only subject to the condition that the short-term rate of interest is allowed to vary. If, for instance, banks buy more bills while the total volume of business transactions is unchanged, bank deposits will rise but the short-term rate of interest must fall. If the short-term rate of interest is unchanged,

as was approximately the case in the period 1940—42, current accounts will increase more or less proportionately with the volume of transactions.[1] The rise in deposit accounts depends on the rate of accumulation of liquid reserves of the public and the relative attractiveness of deposit accounts as compared with other relevant assets. The 'lending power' of the banks is then limited by these determinants of the movement of deposits. We shall examine below the connection between the rise in current accounts and that in the volume of transactions and then compare the movement of current and deposit accounts in the period 1940—1942.

2. As a symptom of the volume of transactions we take our series of the wage-bill of insured workers calculated from the figures of insured employment and average earnings.[2] With this series are compared current accounts net of balances with other banks etc. To eliminate seasonal variation we consider yearly averages: in calendar years and in yearly periods stretching from one mid-year to another.

Yearly Averages of Current ana Deposit Accounts and the Wage-Bill

	Current Accounts £ million	Deposit Accounts £ million	Wage Bill 1938=100
1938	1,184	1,033	100
1940	1,400	1,018	125
1940/41	1,582	1,028	134.5
1941	1,778	1,085	146.5
1941/42	1,915	1,112	156.5
1942	2,033	1,128	166.5

The results are plotted on the accompanying diagram. We see that the points, 1940, 1940/41 and 1941 lie very close to the straight line AB but the point corresponding to the following yearly periods 1941/42 and 1942 are appreciably below it. This slowing down of the rise of current accounts as compared with that of the wage bill may be accounted for by the issue of Tax Reserve Certificates which started in December 1941. They bear 1 per cent. per annum tax free if they are used for payment of taxes due not later than two years from the date of acquisition and may be resold to the Government with 10 days' notice[3] (the interest is not paid in this case). It is clear that these terms may attract to Tax Reserve Certificates certain amounts from current accounts, deposit accounts (which bear ½ per cent. p.a. and are usually subject to notice of 3 months) and perhaps even from other short-term assets. The average of outstanding tax-reserve certificates was £190 million in 1941/42 and £294 million in 1942. If we add these amounts to the respective figures of current accounts we should expect the corresponding points (C and D) to be above AB because only *a part* of tax-reserve certificates may be assumed to have resulted from the transfer from current accounts. This is in fact the case.

The pre-war 1938 point also is above the straight line AB. This may be explained by two factors. (1) the short-term rate of interest was lower in 1938 than in 1940—42 (the rate on treasury bills was in 1938 at about 0.6 per cent. and in 1940—42 approximately stable at

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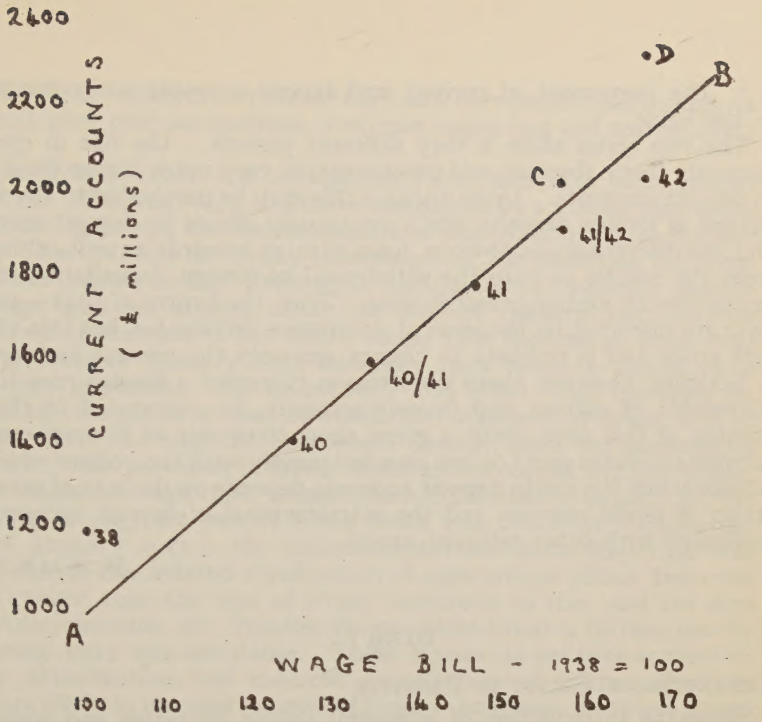
[1] Provided there is no change in the habits of cash holding and there is no considerable shift between accounts of high and low velocity.

[2] See the Diary Note on p. 71 of this Bulletin.

[3] Not earlier than 2 months from the date of acquisition.



about 1 per cent.) (2) A certain reduction in transactions in war-time as compared with 1938, has been brought about by the closing down of the commodity exchanges and by centralising a great part of the trade in raw materials in the hands of Government authorities.[1]

The fact that the wage-bill of insured labour is only an imperfect symptom of the volume of transactions constitutes an obvious weakness of the preceding analysis. It should be noticed, for instance, that the equation of the line AB is $y=17.6x—780$ where y is written for current accounts and x for the index of the wage bill, and this implies that current accounts were increasing at a higher percentage rate than the wage bill. (For instance from 1940 to 1941 current accounts increased by 27 per cent. and the wage bill only by 17 per cent.) This is probably due to the fact that the volume of transactions was not moving proportionately to the wage bill, for with a stable short-term rate we can expect a rise in current accounts more or less proportionate to the volume of transactions. One important reason for a slower rise in the wage bill than in the volume of transactions may be the shift of labour to munitions from other production. Indeed there seems to have been in general more non-integrated stages of production in munitions than in other industries and this increases the volume of transactions corresponding to a given wage bill.

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[1] These two factors outweighed the opposite influence of a greater rise in raw material prices than in wage rates from 1938 to 1940 which tended to inflate the volume of transaction relative to the wage bill.

3. The movement of current and deposit accounts is also compared in the Table.

The two series show a very different picture; the rise in current accounts (both absolute and percentage) is very much higher than that in deposit accounts. Up to 1940/41 this may be partly due to the withdrawal of foreign deposits which are usually placed on deposit account. But the discrepancy is obvious from 1940/41 onwards as well, although from the middle of 1940 the withdrawal of foreign deposits was made impossible by exchange restrictions. True, the figures of 1941—42 and 1942 are distorted by the issue of tax reserve certificates, but this affects *both* series and is unlikely to change seriously the general picture.

Actually, however, there is no reason to expect a similar pace in the movement of current and deposit accounts, for—as stated at the beginning of this note—with a given short-term rate of interest current accounts increase more or less proportionately with the volume of transactions while the rise in deposit accounts depends on the rate of accumulation of liquid reserves and the attractiveness of deposit accounts as compared with other relevant assets.

M. KALECKI.

DIARY

CEILING PRICE POLICY IN PRACTICE

Since the introduction of a general ceiling on prices and wages in Canada (November 1941) and the United States (May and October 1942) some experience of the working of this policy has been accumulated. The gist of this experience is that the price ceiling in both cases has not been strictly preserved, and that the scheme had to be supplemented by a policy of rationing and subsidies ; apart from this the stabilisation of wages has led to acute difficulties in the labour situation.

In *Canada* the cost of living index rose by more than 2 per cent. from the imposition of the price ceiling to November 1942 ; an additional increase was, however, concealed by the ingenious device of declaring, by Order in Council, that ' the prices of cigarettes and tobacco used in calculating the index do not include the tax imposed on June 24, 1942.' This was obviously designed to avoid granting a cost of living bonus to wage-earners which would have been necessitated by an undisguised rise in the cost of living. The pressure against the price ceiling increased considerably towards the end of 1942, mainly owing to the scarcity of certain foodstuffs (especially meat) and the demand of agriculturists for higher prices. The Government therefore decided on a policy of subsidies designed to prevent a rise in cost of living, and provided $40 millions for subsidies on tea, coffee, oranges and milk. Rationing, hitherto confined to wholly or partly imported goods (e.g. sugar, tea, petrol) was extended to butter in December 1942. The resistance of labour against the wage stop found expression in a big strike in steel plants for higher basic wages. The Government virtually gave in on this question and granted a wage increase which marks the first departure from their policy of wage stabilisation. That the latter policy was not an adequate means of curbing the increase in purchasing power can be seen from the development of weekly earnings per employee which rose by about 10% between November 1941 and November 1942, owing to shifts to higher paid occupations, overtime, upgrading and cost of living bonuses.

In the *United States*, the ceiling policy has met with even greater difficulties. The wage stop was made more rigid by a presidential order of October 1942 and an announcement of the National War Labour Board. This confirms the policy formulated by the Board on the occasion of the dispute in the 'little steel' companies last summer, namely that wage increases of 15% above the level of January 1941 may be granted on application to the Board seeing that the cost of living rose by 15% between January 1941 and May 1942 (when a partial price ceiling was imposed). The Board may also grant wage increases on account of 'inequalities' and of insufficient standard of living, and in the case where the wage increase would directly assist the prosecution of the war. No provision is made, however, for cost of living bonuses, so that wages are kept rigid, independent of the cost of living. At the beginning of 1943 the cost of living index was about 20% above the level of January 1941; the additional increase since May 1942 was mostly due to the belated stabilisation of agricultural prices, but even after October 1942 the cost of living continued to rise, and the new Price Administrator, Mr. Prentiss Brown, stated that a further rise by 6% during 1943 was inevitable. These figures do not take account of quality deterioration and enforced substitution of inferior products which are likely to increase the cost of living even more. It thus appears quite clearly that wage stabilisation in practice involves a decrease in real wages, the extent of which will depend on the extent to which the 'price ceiling' is going to move upwards. The way in which the ceiling policy has worked out provided the background for various labour disputes, the most important of which was the strike of anthracite miners for higher wages.

There is no sign of departure from the wage stop,[1] but the inadequacy of the ceiling price policy has already forced the administration to adopt more rationing. In this first stage, rationing was specific and confined to a few goods: sugar (May 1941), petrol (at first only in the Eastern States; from December 1942 nation-wide rationing), fuel oil (in certain areas), coffee (November 1942). A second stage has been reached with the adoption of point rationing in 1943. The first of these schemes was for canned food and dried fruits, and came into force in February 1943. Further point schemes for meat, cheese, butter and cooking fats are to be introduced in April. Another item to be rationed is shoes.

The need for a policy of subsidising essential consumers' goods in order to prevent unavoidable cost increases from raising the cost of living, was stressed by Mr. Leon Henderson before his departure from the post of Price Administrator. This statement of policy has not been contradicted by the new Price Administrator, but as a considerable increase in the cost of living is freely envisaged, it seems that there is reluctance to use subsidies on a sufficiently large scale. Yet a policy of subsidies is essential in order to solve the present dilemma of American price policy. As far as it is desirable to raise agricultural prices in order to provide an incentive to production or in order to carry out the parity policy (some agricultural prices have not yet reached the parity laid down under the price legislation), this can be done without affecting the cost of living, if subsidies are provided. At the same time, wage control can be made more flexible and wage increases can be granted where they are necessary as an incentive or where harmful disputes can be avoided, and the effect of the wage increase on the cost of living can be offset by subsidies. The alternative policy of letting the cost of living rise with rigidly stablised wages is bound to create dissatisfaction which can only be dangerous to the war effort.

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[1] Except in the case of agricultural wages, where the wage stabilisation order was amended so as to make it possible to bring them more nearly into line with industrial wages.

CONCENTRATION IN GOLD MINING

The announcement made by the Colonial Office a few weeks ago, stating that gold mines on the Gold Coast are to be concentrated, raises wider issues than do similar measures taken by the Government of U.S.A., Canada and Australia. The Gold Industry in West and South Africa is at present an essential part of the economic life, quite apart from the question whether this output can compare in importance with the production of war materials. Official and unofficial warnings against any major changes had been repeatedly given. South Africa's Minister of Finance expressed, as late as last autumn, the opinion that ' the war effort will decrease if the production of gold is curtailed.'

The 500,000 men producing African gold form a considerable reserve for the war effort. But the mobilisation of manpower is complicated by the colour bar, since skilled and most semi-skilled occupations are closed to coloured people. Their entrance into the skilled labour market would produce a kind of social upheaval. Of the 50,000 white employees in South Africa, not more than 10,000 were released for active service and those volunteering without the employers' permission were refused allowances. Considerations of manpower have had little effect on gold output and it was emphasised that any reduction in gold mining would have to result from circumstances beyond the control of the gold mining industry.

This condition has lately been fulfilled, with the growing shortage of materials essential for mining such as steel and oil. It was the need to free manpower and machinery for the production of war metals that had caused U.S.A. to curtail her own gold production. At the same time scarce shipping space was used for the export of materials and machinery, needed for gold mining, from U.S.A. to countries which continued to mine gold and ship it via U.K. to U.S.A. The more intensive mobilisation of industry is beginning to resolve the conflict between the money concept—to pay for goods received—and the war effort in real terms—well armed forces—in favour of the latter.

The Colonial Office gave as the main reason for concentration the need to economise essential material, including oil and manpower, the latter appearing as only one and by no means the essential item. Actually, throughout the war years new mines had been opened and treatment works erected. Gold production had increased from 730,000 fine oz. in 1938 to 930,000 fine oz. in 1941 on the Gold Coast, and from 12.2 million fine oz. to 14.4 million fine oz. in South Africa, although the average gold content of the ore mined had declined.

The principles on which the seven nucleus firms on the Gold Coast were chosen are not clear to the outsider. About two thirds of the major companies keep their mines working. Two of the largest gold mines are among those concentrated and kept on a care and maintenance basis. Low and high cost producers are to be found among the nucleus firms as well as among those closed down.

The ore reserves, as indicated in the table, are sufficient to last for some 3—5 years of normal gold milling. There being no details of the financial arrangements for the concentration, its effect on the payment of Excess Profit Tax is not clear. With a comparatively low production of most gold mines in the standard years, high E.P.T. had to be paid, and the concentration will probably result in a considerable lowering of E.P.T. payments and in the saving of the limited gold deposits for better times, when E.P.T. has been removed. Reflections of this kind may have been responsible for the only slight drop—by not more than some 15%—in the share prices of the concentrated firms.

The effect on the Balance of Payments and on State Revenue will depend on how far total output will be diminished. Gold exports in 1939 represented, at £6.2 million, the largest item. Any large shrinkage in gold production and export will thus strongly influence the budget.

	Ore 000 tons	*Yield £000*	*Tons mill'd 000 1st half*	*Cost per ton 1941*	*Cost per ton 1st half 1942*	*Ore reserves in 000 tons*	*Value dwts. per ton*	*Net Profit £000 1939*	*Net Profit £000 1941*
	1941	*1941*	*1942*	s. d.	s. d.				
Nucleus Firms:—									
Ariston Gold Mines	785	885	123	20/11		2,228	7.17	145	76
Ashanti Goldfields	228	2,218	105	35/4	53/4	2,077	21.6	1,255	1,017
Bibiani Ltd.	294	746	126	19/7	28/4	2,548	7.17	153	121
Bremang Gold								—9	16
Konongo Gold	138[1]	490[1]		32/3¾				97	19
Gold Coast Main Reef	55[2]	173[2]	42		13/8	526		50[1]	11
Taquah Abosso	295	620	136	17/6		2,134	5.65	139	134
Major Care and Maintenance Firms:—									
Amalg. Banket Areas	398	493		36/8		1,385[3]	5.48	21	67
Maolu Gold	760	740	237	7/9	12/2		(2.1)	421	125
Ashanti Adowsena	44[2]		98[4]				(2.9)		

[1] 1940. [2] 6 months. [3] 1939. [4] 1941.

The results of the concentration will be followed with great interest in South Africa, the world's greatest gold producer. Most of the Rand mines possess also sufficient ore reserves to maintain milling for some 3 or 4 years. The repeated statements that the whole economic structure of the land would be upset by a curtailment of gold production hardly takes into account that the gold mines are wasting assets and that it is only a question of decades before the African gold mining industry will rapidly decline[1] and new ways of economic activity will have to be found. We may expect that South Africa sooner or later will have to follow the example of other United Nations, the more so as the efforts to obtain the necessary mining machinery in U.S.A. have now failed.

So far the South African goldmining companies have, on the lines of the 1917 pooling arrangements, tried to solve part of their supply problems by an agreement whereby the Mine Stores Department of the Transvaal Chamber of Mines controls stocks, purchase and distribution of mining supplies. Experiments with ' lend-lease ' of mining machinery between different companies of the same financial group have also been made. Development work, as distinct from production, has been curtailed. It remains to be seen whether South Africa will follow the West African example where manpower and material is saved, without serious damage to the companies concentrated.

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[1] Assuming that the knowledge of deposits, technique of development and the price-cost relation do not undergo fundamental changes.

THE SHORTAGE OF SERVICES.

The demand for services and housing increased during the war partly because total incomes rose, partly because spending on goods was restricted yet shortages in this field developed on the whole later and received less attention than those in the goods sector.

The volume of consumption of services has, on the basis of the White Paper and estimates of consumption of goods (*cf.* BULLETIN Vol. 4, No. 6), probably changed little during the war. While an expansion of consumption in some services, e.g. entertainment, travel and housing (which is a service from this point of view) was made possible by a higher utilisation of existing facilities, the call-up has reduced consumption in other fields, e.g. repairs, domestic and professional services. The shortages which have developed, especially in the latter instances, are likely to grow worse as the war proceeds. The question arises whether rationing, used so successfully to ensure fair distribution of goods, is applicable in any way to services.

Voluntary pooling of facilities has already been recognised as an important source of economy of scarce services, e.g. sharing of firesides, taking in of billetees. Compulsory pooling has also been effected in billeting, in retail deliveries and in the zoning schemes of the Ministry of Food, while the Minister of Labour has recently envisaged a pooling of domestic services. A general tightening up of existing schemes seems, however, necessary. In districts where, for instange, the housing shortage is growing more acute the present methods of selective billeting may have to be abandoned in favour of pooling of all house room in excess of a recognised standard of, say, one room per person, and surplus rooms may have to be allocated to persons on a billeting register according to a system of priorities. This may be an extreme example and in many cases it may be sufficient to make it unlawful to let rooms without offering them first to the Billeting Officer. This would in itself contribute to control of rents of furnished accommodation which was unduly neglected in the Rent Restriction Acts.

In other sectors it may be necessary to introduce priorities, although the definition of priority groups of consumers presents considerable difficulties. In a rough and ready way these difficulties could be overcome if the need arose. In countries where the manpower shortage is very acute as, for instance, in Germany, a great number of priority regulations have had to be introduced ; invalids receive priorities in selected health resorts ; soldiers on leave and heavy munition workers (with certificates) and their families have first claim on other health resorts. Repair services, which are getting short in this country too, have been regulated in Germany, partly by establishing certain groups of priority consumers, and partly by giving priority to repair work over new work (tailoring, shoemaking, etc.). A similar system could be applied to performances in theatres and cinemas by giving workers doing longer hours entry outside queues, or by arranging for special performances for them.

Rationing proper of services is impracticable in most cases, but may have a field of application in laundry work, cleaning, dyeing, and clothing repairs, but even there the system could hardly be one of flat rationing, and would have to be transformed into one of differential rationing which would give similar results to those achieved by a system of priorities. In the service sector the common method is still a sort of ' private rationing ' by firms which often results in preferential treatment of certain groups of customers (regular or big customers at the expense of small or new customers). The cautious way in which the Government has approached the problem of a fair distribution of available services would seem to be partly connected with the nature of the service industries and may partly be based on the assumption that interference with consumption of services cuts more drastically into the consumption habits of various groups of society than the rationing of goods.

Employment and the Wage-Bill in the Second Half of 1942.

The Table below brings up to date the series of employment and the wage-bill given in the Bulletin Vol. 3, No. 13, Vol. 4, No. 3 and Vol. 4, No. 13. The index of the number of persons in insured employment (after elimination of the changes in the scope of insurance) is calculated from the unemployment insurance contributions.[1] This calculation gives for the second half of 1942 an index of 105.5 (1938=100). Because, however, of women part-time workers who became exempt from insurance from April 1942 onwards, a correction is required. It has been estimated in this Bulletin, from the Ministry of Labour enquiry into earnings in manufacturing, building and public utilities in July 1942, that the percentage of part-time women workers to all workers in these industries was 0.9 to 1.9 per cent.[2] If two such workers are counted as one full-time worker this percentage is 0.5 to 1 per cent. In other industries the percentage is probably lower and thus a correction of our figure of employment of 0.5 per cent. is a fair estimate. That gives an index of persons employed of 106 (two part-time women workers counted as one worker).

Index of Wage-Bill. 1938=100.

	Half year	*Persons employed*	*'Earning strength' per person*	*Wage rates*	*Wage Bill*
1940	I	102.5	109	109.5	122.5
	II	98.5	112	115	127
1941	I	104.5	113	120.5	142
	II	105	116	124	151
1942	I	106.5	118	129	162
	II	106	121	133	171

The average earnings in manufacturing, building and public utilities increased from July 1941 to July 1942, according to the Ministry of Labour enquiry, by 12 per cent. (also counting two part-time women workers in July 1942 as one worker). The respective rise in wage rates is estimated by the Ministry of Labour at 5 per cent. It follows that the 'earning strength ,' i.e. the ratio of the index of earnings to that of wage-rates, increased by 6.5 per cent. from mid-1941 to mid-1942. This rise probably depends chiefly on spreading of night shift and production bonuses to a greater number of workers, and on the shift to better paid occupations. The rise in earning strength in other industries is likely to have been smaller. On the other hand the increase in earning strength probably continued after July 1942 and thus we assume that the index of earning strength in the second half of 1942 was 6 per cent. higher than in July 1941. The latter has been estimated[1] at 114 (1938=100) and consequently we estimate the index of earning strength in the second half of 1942 at 121.

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[1] The method is described in detail in Bulletin Vol. 3, No. 13.

[2] Bulletin, Vol. 5, No. 2, p. 32.

The wage-bill is obtained as the product of the index of persons employed, the ' earning strength ' and Professor Bowley's index of wage-rates. The wage-bill computed in this way does not cover strictly the aggregate earnings of manual workers because insured employment excludes certain types of manual labour and includes lower grades of salary earners.

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[1] BULLETIN, Vol. 4, No. 3, p. 67.

ERRATA.

BULLETIN Vol. 5, No. 3.

Page 41, Footnote 2. " Supplement 1 " *read* " Supplement 3."

,, 48, Appendix B, line 9, *read :* " The coefficients of correlation are: $r_{xy.z}=0.38 \pm 0.07$."

,, 54, last paragraph, 3rd line : the word "twice" should be omitted.

,, 56, paragraph 1, line 12, *read:* " The acquisition of Napier by the English Electric Company, . . ."